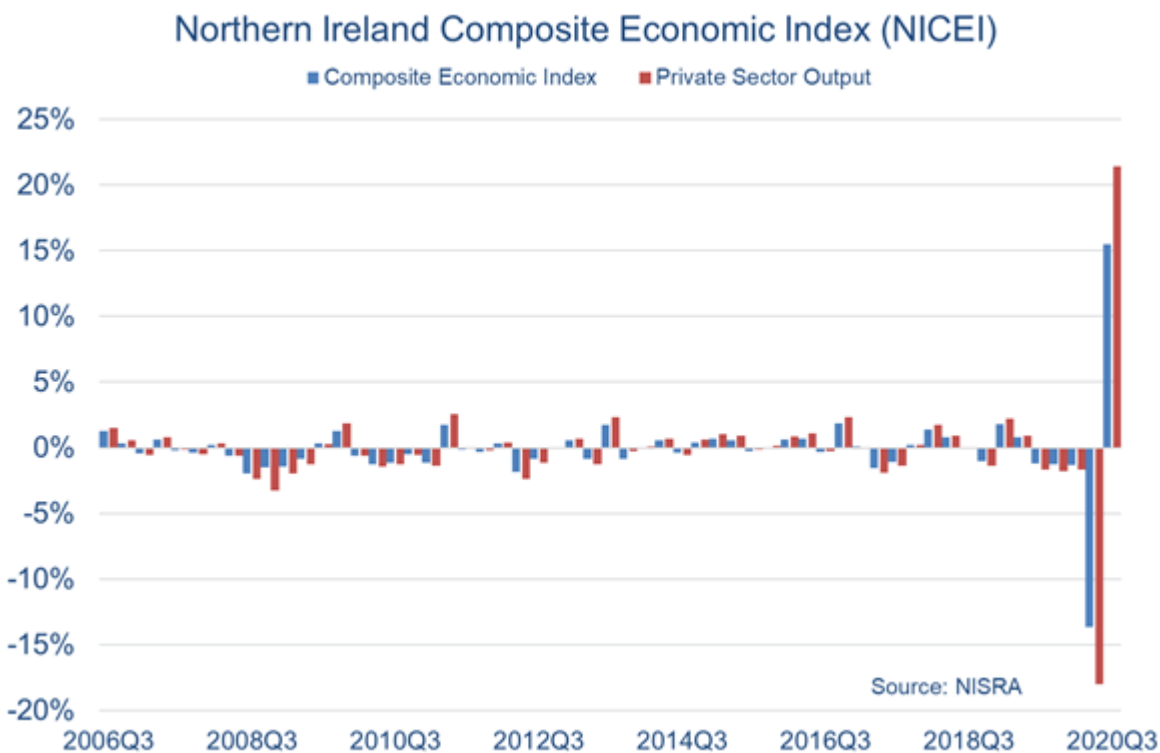
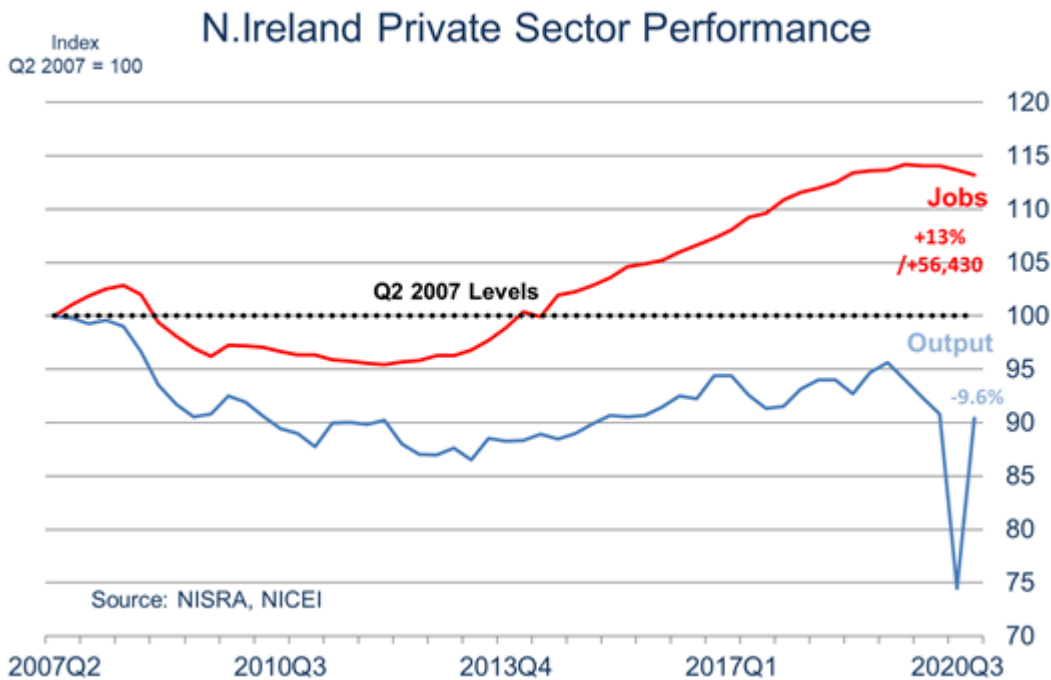
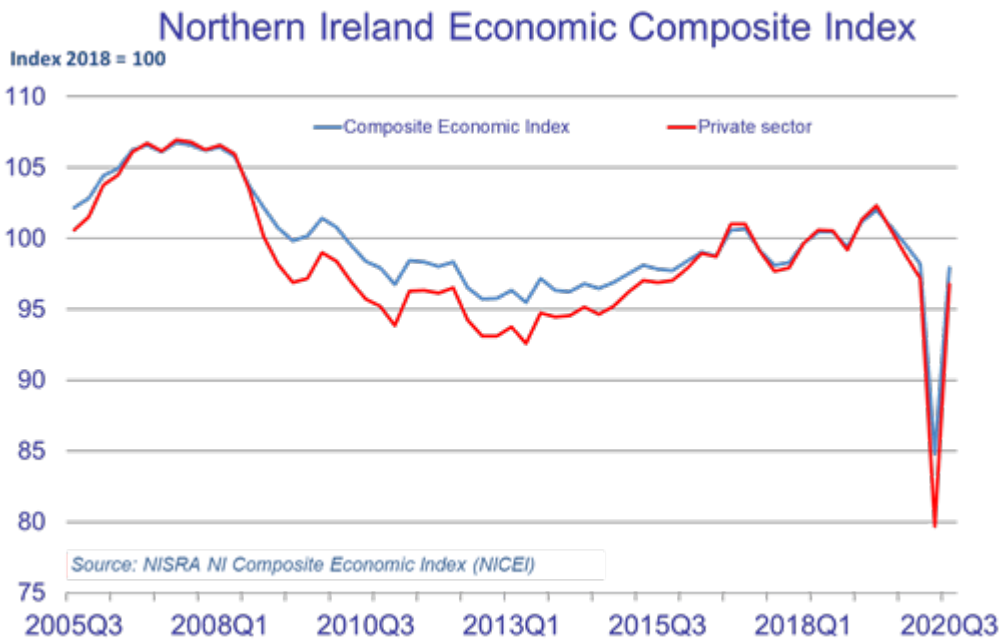


Record rebound - Northern Ireland’s economy witnessed a record rate of expansion during the third quarter with output rising by 15.5% q/q. That is according to NI’s Composite Economic Index (NICEI) which is the closest statistic to GDP that we have. Q3’s record rebound followed four successive quarters of contraction and a record rate of decline of 13.7% q/q in Q2. The pandemic has necessitated the introduction of lockdowns which switched off large parts of economic activity. Conversely, the lifting of restrictions in Q3 led to a reopening of the economy and a subsequent surge in economic activity.



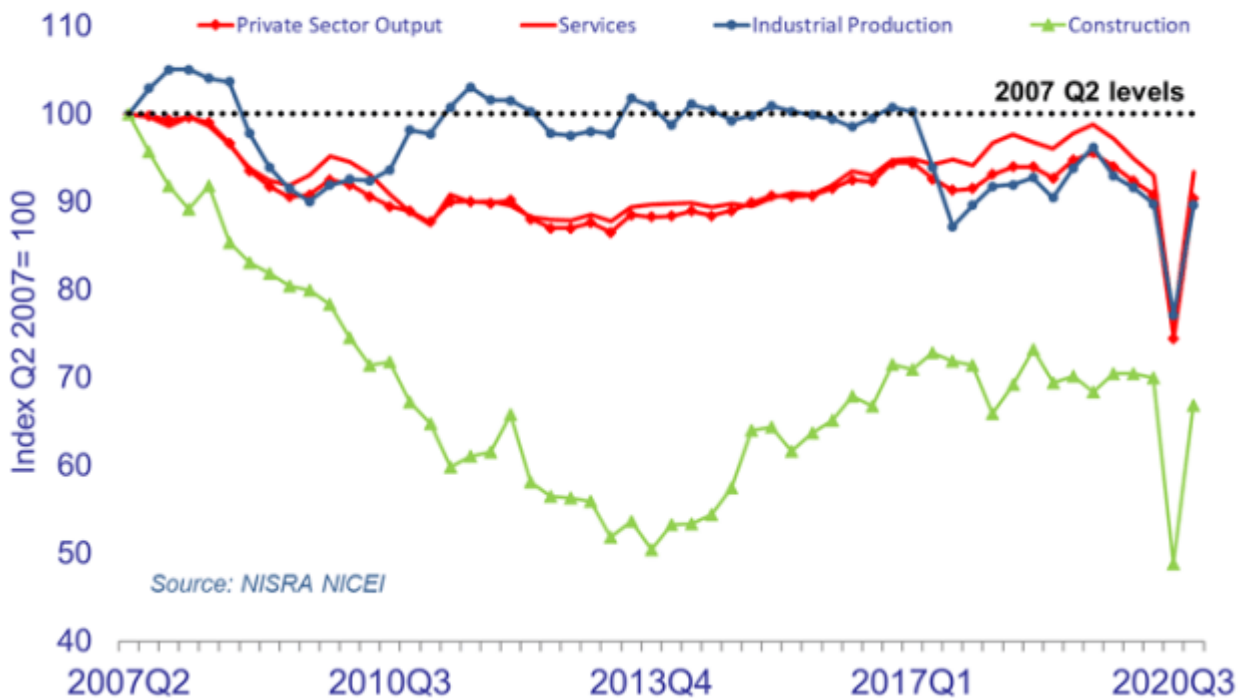
V-sign - Proponents of a ‘V-shaped’ recovery will feel validated from what they see in the composite index. It is noted that output in Q3 was just 1.6% below pre-pandemic levels (Q4 2019) with private sector output just 2.1% adrift. That means that the NI economy has recouped 90% of the drop in output that occurred during the first two quarters (Q1 & Q2 2020) of the pandemic. A recovery of this speed and scale compares favourably with economies elsewhere. For example, the UK economy has recovered just 60% of the output (measured using GDP) it lost between Q4-2019 and Q2-2020. As a result, UK GDP in Q3

2020 was 8.6% below the pre-pandemic peak. That gap is over five times the gap of the NICEI for the corresponding period. Has NI's recovery been more robust than the UK's? Not according to some of the local survey evidence including the PMIs. As often happens with official figures, we may well see revisions to the latest data in due course.



All bar one - The public sector component has been buoying up the overall composite index in recent quarters. Unlike in GDP, this component is measured using employment levels rather than output. Local public sector output levels have been following an upward trend since mid-2018. During the latest quarter, however, the public sector was the only key index not to record a record quarterly rise. Instead it dipped by 0.4% q/q from Q2 2020's five-and-a-half-year high. Construction was the stand-out performer with output rebounding by a massive 37% q/q as building sites reopened. Meanwhile private sector services and industrial production (*mostly manufacturing*) posted record quarterly rises of 22.5% and 16.2% respectively (For further analysis on these two sectors see link here <https://ulstereconomix.com/2020/12/17/what-goes-down-must-go-up/>) Overall private sector output rebounded by 21.4% q/q following Q2's 18% q/q decline.

N.Ireland Private Sector Output Performance



Snakes & ladders - During the last couple of years economic growth has resembled a game of snakes and ladders. Northern Ireland's economy was already on the slide - in

recession – before the pandemic struck. Indeed the NICEI posted the first of its four quarter sequence of contraction in Q3 2019. So unlike with the UK, Q2 2019 represents the pre-pandemic high rather than Q4 2019. The NICEI in Q3 2020 is down 4% relative to Q2 2019 while private sector output is down a chunky 5.4%. Getting back to this pre-pandemic high may take longer than the recent rebound suggests. The third quarter seems a long time ago now when the *Eat Out to Help Out* scheme was in full swing. But a return to lockdown restrictions in Q4 and Q1 2021 mean that Q3's big ladder is set to be followed by at least one and probably two more snakes.

V-shaped or a squashed 'W'?– So at the start of Q2 2021 private sector output is expected to be even further adrift from its pre-pandemic levels than the latest data currently suggests it is now. Assuming a rapid, efficient and effective rollout of the vaccine programme in H1, the economic recovery should resume with gusto in the second half of the year. Following an estimated contraction in the NI economy of 12-13% last year, the local economy should see growth of around 5% in 2021. The V-shaped recovery that we are currently seeing looks set to resemble a squashed 'W', meaning the second dip will be significantly shallower than the first one.

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